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July 21, 1994

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Notice of Ex Parte Contact PP Docket No. 93-253

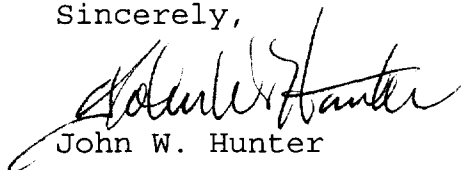
Dear Mr. Caton:

Pursuant to Section 1.1206 of the Commission's Rules, notice is hereby given of an ex parte communication regarding the above-referenced proceeding. The instant notice is being submitted in duplicate.

Another series of E-mail communications concerning details of the auction rules for the narrowband PCS auctions have been sent to a member of the Commission's staff. Copies of those communications are enclosed.

Please associate this material with the record in this proceeding on behalf of Paging Network, Inc.

Sincerely,


John W. Hunter

JWH:cpa
Enclosure

cc: Evan Kwerel, Office of Plans & Policy

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Comments on the Auction Rules for the Nationwide Narrowband PCS Auction

Peter Cramton, 21 July 1994

I wish to document my recommendations on some of the details of the auction rules for the nationwide narrowband PCS auction.

1. Start stage 2 as soon as possible.

Because of the possibility of insincere bidding in stage 1 (bidding on a single license when the bidder really wants three at the current prices), it makes sense to start stage 2 as soon as possible. The pace in stage 1 could be substantially reduced if many bidders adopt a "wait and see" strategy: bidding on one license when they desire three. The more stringent activity requirement in stage 2 is necessary in order to prevent this insincere bidding. All my simulations (see my 9 July 1994 note, "Adjusting the Bid Increment in the Nationwide Narrowband PCS Auction") assumed that bidders were bidding sincerely. The number of rounds to reach closure could be much longer if bidders adopt the wait-and-see strategy and the FCC fails to move into stage 2 until late in the auction.

2. Bid withdrawal

Bidders should be able to withdraw bids at any time in the round; however, a withdrawal should not be posted until the round has ended. If no new bid is received on that license in the round of withdrawal, the bidder should be listed as "FCC" (or a bidder number of 0) and the price should be the second highest bid on that license from prior rounds. The minimum bid to be posted should be this second highest bid. If the license receives no bids in the next round, then the minimum bid should drop by the current bid increment. The minimum bid should continue to drop one bid increment per round until someone bids on the license.

A withdrawn bid should not count as bid activity. Hence, if a bidder is eligible for one license and is the high bidder on one license, but withdraws its high bid, then the bidder should only be able to maintain eligibility by using a waiver or bidding on another license. Note that the bidder should be able to withdraw its high bid and bid on another license within the same round. Other bidders will not be able to respond to the withdrawal until the next round.

My understanding is that the FCC does not intend to let a bidder withdrawal and shift its bid to another license in the same round. This has the apparent advantage that the withdrawing bidder and the other bidders are treated symmetrically. However, it could add one round to the auction each time there is a withdrawal. I see little harm in letting the withdrawing bidder shift its bid in the current round. Indeed, in some sense high bidders are disadvantaged by this treatment. If a bidder withdraws on license 1, then the high bidder on license 2 (who is eligible for one license) is unable to respond to this withdrawal by bidding on license 1. Other bidders can bid on license 1 in the next round. However, the high bidder on license 2 must first withdrawal from license 2, and then bid on license 1 in the round after

next. *High bidders are unable to take advantage of a withdraw, while non-high bidders can.*

A withdrawing bidder's shift to another license should not be considered a response to the withdrawal. The response to the withdrawal is bidding activity on the license with the withdrawal. All bidders (high bidders and non-high bidders) should have an equal opportunity to bid on the license in which there was a withdrawal.

..... A bidder should only be allowed to rebid at most a limited number of times on any license from which it has withdrawn. Otherwise, a bidder could extend the auction indefinitely by withdrawing on, say, one 50 kHz license and bidding on the other 50, then in the next round bidding on the withdrawn license from the prior round and withdrawing from the other. This keeps the auction going indefinitely *without raising prices*. Restricting the bidder to rebid a limited number of times prevents such a strategy and yet it lets the bidder return to the license should it find that no other bidder wants the license even at low prices.

3. Can a bidder raise its own bid?

A bidder should be able to raise its own bid as long as it bids at least the minimum bid (its current high bid plus the bid increment).

4. If a bidder is eligible for three licenses and is the high bidder on one, how many licenses can the bidder bid on?

A prior high bid should count as a bid. Hence, the bidder can bid on two additional licenses. The bidder can only bid on three licenses if one of the bids is a raise of its prior high bid, or the bidder withdraws its bid prior to bidding. This same rule should apply regardless of the level of eligibility.

5. Automatic waivers in stage 2

Automatic waivers should be used in stage 2 to maintain a bidder's current eligibility, *unless the bidder specifically requests that a waiver not be used*. The purpose of automatic waivers is to prevent the reduction of eligibility in the event the bidder is unable to place a bid, because of unusual circumstances (e.g., trapped in the elevator), or the bidder makes a mistake (bids on two licenses when the intent was to bid on three). A bidder that wishes to have its eligibility reduced must request that the waiver not be used. Applying automatic waivers in this way means that a bidder may unintentionally use a waiver should it forget to request that a waiver not be applied. This makes sense, since the automatic waiver prevents the more costly mistake (permanent loss of eligibility), rather than the less costly mistake (unintended use of a waiver).

Automatic waivers in stage 2 should not keep the auction open. If no new bids or proactive waivers are received in a round the auction should end. Allowing automatic waivers to keep the bidding open would make it possible for a bidder to extend the auction by more

than a day. For example, suppose a bidder is the high bidder on a single license and that no new bids are received. At a minimum, the bidder could extend the auction by five hours by using proactive waivers. However, with automatic waivers the bidder can extend the bidding further by relying on the automatic waivers of other bidders.

6. Retroactive waivers should be allowed in stage 2.

Retroactive waivers should be allowed in stage 2, because of the possibility of bid withdrawal. A withdrawal may lead to a drop in price, which makes it desirable for a bidder to increase its bid activity. One waiver per round is needed. Retroactive waivers cannot be used after the auction closes. The auction should end immediately if no new bids or proactive waivers are submitted in a round.

My understanding is that the FCC has decided to forbid retroactive waivers in stage 2, since automatic waivers will be used to extend a bidders eligibility. However, this forces a bidder to decide *ex ante* when it is best to use the waivers. This decision depends on where the bidder thinks prices will end up. When the bidder's activity falls from three to two, should it use waivers then, or wait until its activity falls from two to one, or one to zero. Having the information about bid withdrawals would be helpful in making this decision. Hence, it is better to let the bidder condition its use of waivers on this information.

7. Confirmation of bid entries.

The bidder should receive a written confirmation of the bid before leaving the bid booth. The confirmation should indicate the bidder number, the license number and bid amount on each license bid for, the number of waivers the bidder has left, the bidder's eligibility in the current round, and its eligibility in the next round based on the submitted bid(s). A bid that is below the minimum bid should be indicated as invalid on the printout. The bidder should have an opportunity to correct any mistakes in its bid *prior to leaving the bidding booth*. The bid should be final once the bidder has left the bidding booth. The bidder should not be able to return to the bidding booth later in the round to change its bid.